PP14767/09/2012(030761)

Wednesday, February 10, 2016

SapuraKencana Petroleum Berhad

"Second Contract Win in 2016"

Market Access

SapuraKencana Petroleum Berhad (SapuraKencana) has successfully secured new contract awards from Murphy Sarawak Oil Company Ltd (Murphy Sarawak) and Petronas Floating LNG1 (L) Ltd (PFLNG) in addition to contract extension from BP Trinidad & Tobago. These carry an impressive combined value of USD382 million (RM1.58 billion). We remain positive on the long-term outlook of SapuraKencana despite facing downside risk of challenging oil and gas period. Its multiple new awards win will boost further its current orderbook of RM21.0 billion. We value SapuraKencana at RM2.32 and the stock is a BUY.

- **E&C award.** SapuraKencana has been awarded a contract for comprehensive maintenance of GE-supplied turbomachinery equipment by Murphy Sarawak. The job scope is comprised of provision of maintenance services for GE-supplied gas turbines and centrifugal compressors with the contract period of 10 years. In addition, the group also secured a contract from PFLNG comprising the provision of maintenance services for GE-supplied aeroderivative gas turbines, centrifugal compressors and electric generators and electric motors. The contract period for PFLNG's awards is for 10 years.

- **Drilling contract extension.** SapuraKencana has also been granted a contract extension by BP Trinidad & Tobago LLC (BP) for its semi-submersible tender assist drilling rig "SKD Jaya" with additional one well for its drilling campaign at offshore Trinidad & Tobago. The extension contract is scheduled for completion by April 2016.

- **Strong visibility on RM21 billion orderbook.** We remain positive on this new contract awards of RM1.58 billion as it will add to SapuraKencana's solid

BUY (TP: RM2.32)

Current Price (RM)	RM1.85
New Target Price (RM)	**RM2.32**
Previous Target Price (RM)	RM2.55
Previous Recommend.	BUY
Upside To Target Price	**25%**
Dividend Yield (FY17)	**1%**

Stock Code

Bloomberg	SAKP MK

Stock & Market Data

Listing	MAIN MARKET
Sector	Oil and Gas
Shariah Compliance	Yes
Issued Shares (mn)	5,992
Market Cap (RM mn)	11,086
YTD Chg In Share Price	-8%
Beta (x)	2.22
52-week Hi/Lo (RM)	3.01 | 1.36
3M Average Volume (shrs)	10.76mn
Estimated Free Float	19%

Major Shareholders

Sapura Holdings	17%
STSB	16%
EPF	15%
Khasera Baru	10%

Note

OCSS - Offshore Construction & Subsea Services
DES - Drilling and Energy Services
Fab & HUC - Fabrication, Hook-up Commissioning & Offshore Vessel Support
E&C - Engineering and Construction

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orderbook which now stands at RM21 billion as at Otober 2015 (2.1x of FY15 revenue). 9% (RM2.0 billion) and 28% (RM5.8 billion) would be burned-out in FY16 and FY17 respectively. Geographical wise, the orderbook breakdown is comprise of 57% (RM12.0 billion) from Americas, 27% (RM5.7 billion) from Malaysia, 13% (RM2.7 billion) from Asia Pacific region and the rest are from Australia as well as Africa.

- **Termination of propose acquisition of Vietnam's assets.** In mid-January, SapuraKencana announced that the conditional sale and purchase agreements (SPA) on the propose acquisition of Vietnam's oil and gas assets have been terminated by all parties by mutual agreement in accordance with the terms of the SPA. Note that SapuraKencana have entered into three conditional sale and purchase agreements (SPA) in November 2014 to acquire an interest in Petronas Carigali Overseas' and PC Vietnam's assets in Vietnam for USD400 million. The three field are consist of; i) Blocks 01/97 and 02/97 (50% interest), ii) Blocks 10 and 11.1 (40% interest) and Block 46-Cai Nuoc (36.8% interest). We are not surprise on termination of the propose acquisition in Vietnam which may cause higher funding cost in tandem with the current slump in oil price.

- **Earnings outlook.** We keep unchanged our FY16 earnings forecast as the new contract secured is within our assumption but we trim our FY17 earnings projection by 13% as we factor in lower earnings contribution from energy segment in line with the lacklustre oil price movement which currently staying around USD30 per barrel. Nonetheless, FY17 earnings are projected to increase by 2% y-o-y lifted by i) steady contribution from E&C segment and ii) healthy contribution from PLSV's operation in Brazil.

- **Valuation & recommendation.** We re-value our target price on SapuraKencana at RM2.32 based on 14x PER (35% discount to last 3-years average low PER of 21x) pegged to FY17 EPS of 17sen and reiterate our **BUY** call underpinned by its solid orderbook of approximately RM21 billion, one of the largest in our oil and gas space.

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Table 1: Peers Comparison (Calenderised)

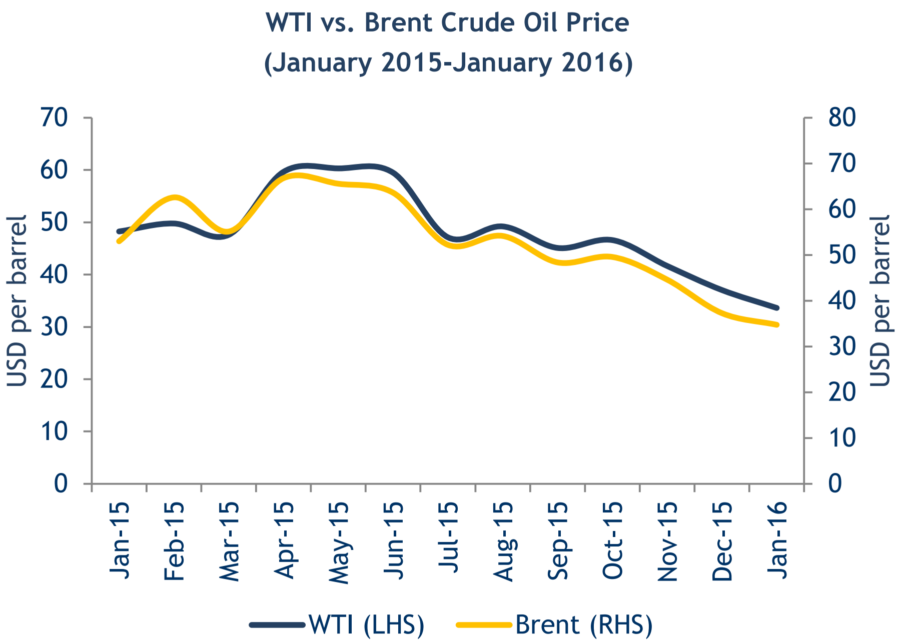
Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY16	FY17	FY16	FY17	FY16	FY17				
SapuraKencana	Jan	1.85	18	19	10.7	10.1	0.9	0.8	5	2	2.32	Buy
Wah Seong	Dec	0.81	10	12	9.5	8.0	0.7	0.7	7	4	0.94	Hold
Bumi Armada	Dec	1.02	7	10	15.2	10.2	0.9	0.8	(3)	2	1.20	Buy
Dialog Group	Jun	1.58	6	7	26.6	23.5	3.6	3.3	15	1	1.60	Hold
MMHE	Dec	0.93	7	8	13.7	12.7	0.6	0.6	3	NA	0.96	Hold
PetDag	Dec	25.10	93	98	26.5	24.9	4.4	4.5	14	2	22.68	Hold
Dayang	Dec	1.07	15	21	9.3	6.6	1.1	0.8	20	3	1.71	Buy
UMW-OG	Dec	0.98	2	5	48.6	23.8	0.7	0.7	3	NA	0.83	Sell
Perisai	Dec	0.27	2	4	13.3	0.8	0.3	0.3	2	NA	NR	NR
Perdana Petroleum	Dec	NA	8	10	20.0	NA	NA	NA	(3)	NA	NR	NR
TH Heavy	Dec	0.15	NA	NA	NA	NA	NA	NA	(23)	NA	NR	NR
Petra Energy	Dec	1.15	18	19	7.1	6.6	0.8	0.7	8	2	NR	NR
Deleum	Dec	0.99	13	14	8.6	7.7	1.3	1.2	19	6	NR	NR
Uzma	Dec	1.67	21	26	9.7	7.5	1.2	0.8	1	NA	NR	NR
KNM	Dec	0.47	6	8	9.4	6.5	0.4	NA	2	NA	NR	NR
Average					16.3	11.4	1.3	1.3	5	3		

Source: Bloomberg, M&A Securities

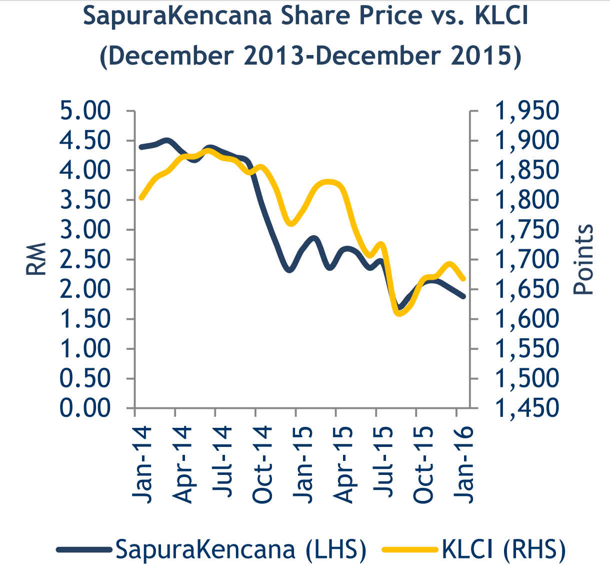
Table 2: Financial Forecast

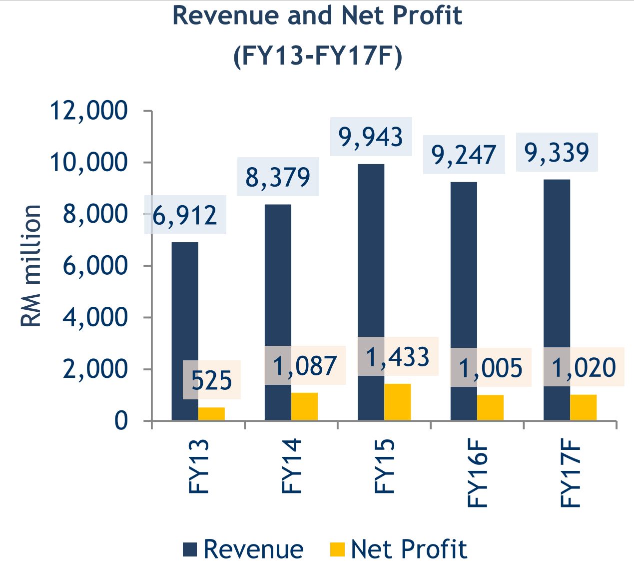
YE: Jan (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	6,912	8,379	9,943	9,247	9,339
EBIT	922	1,846	3,107	1,480	1,588
Net interest	(227)	(444)	(651)	(601)	(607)
Pre-tax profit	830	1,208	1,616	1,248	1,308
Net Profit	525	1,087	1,433	1,005	1,020
EPS (sen)	10	19	24	17	17
EBIT Margin	13%	22%	31%	16%	17%
Pre-tax margin	12%	14%	16%	14%	14%
PER (x)	27.9	22.7	11.2	11.0	10.8
P/BV (x)	2.3	1.4	1.2	0.9	0.8
DPS (sen)	NA	NA	4	3	3
Dividend Yield	NA	NA	2%	2%	1%

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg





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STOCK RECOMMENDATIONS

BUY — *Share price is expected to be ≥+10% over the next 12 months.*
TRADING BUY — *Share price is expected to be ≥+10% within 3-months due to positive newsflow.*
HOLD — *Share price is expected to be between -10% and +10% over the next 12 months.*
SELL — *Share price is expected to be ≥-10% over the next 12 months.*

SECTOR RECOMMENDATIONS

OVERWEIGHT — *The sector is expected to outperform the FBM KLCI over the next 12 months.*
NEUTRAL — *The sector is expected to perform in line with the FBM KLCI over the next 12 months.*
UNDERWEIGHT — *The sector is expected to underperform the FBM KLCI over the next 12 months.*

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